

Chapter 9

ADMINISTRATION OF A VALUE-ADDED TAX

I. Introduction

The Internal Revenue Service (IRS) has developed a provisional plan for administering a consumption type value-added tax with liability determined by the credit method. When fully phased in, it would cost about \$700 million per year and necessitate the hiring of about 20,000 additional employees. These costs and administration assumptions would need to be reassessed for either a subtraction or addition type value-added tax. In general, the value-added tax would apply to all sales of goods and services, but, as explained in Chapters 6 and 7, certain commodities, transactions, and types of activity would probably be excluded from the tax base.

II. General Information

The IRS would be primarily responsible for the administration of the value-added tax. Although a collection responsibility would be assigned to the U.S. Customs Service with respect to imports, all other tax administrative functions would be the obligation of the IRS.

The IRS would administer the value-added tax program within its existing organizational structure i.e., the same districts, regions, and service centers as are presently responsible for administering the income tax. Thus, the value-added tax would be an additional element in the Federal tax system, but it would not cause changes in the basic structure of how the other Federal taxes are administered.

In projecting the expected administrative costs, it was estimated that there would be about 20 million taxpayers under the value-added tax. Exclusions for specific industries or classes of taxpayers could result in somewhat lower numbers. For comparative purposes, an analysis of the current number of state retail sales tax filers was made. Under the state retail sales taxes, there were approximately 5.5 million registered firms in 1984. If this figure is extended to cover the 5 states not using the retail sales tax, the figure would be about 5.75 million. Many of the states, however, do not tax services; Hawaii and New Mexico do. If the very broad-based taxes of Hawaii and New Mexico, which apply to virtually all services, are considered, the number of sales tax filers on a national basis would be approximately 17 million and 15 million, respectively. None of these estimates, either for the Federal value-added tax or the state sales taxes, includes farmers.

There would be limited integration of the value-added tax with the income tax, i.e., enactment of a value-added tax would necessitate separate forms, filing requirements, and penalties. The IRS, however, would offset overpayments of other taxes with any uncollected value-

added tax liability. This is currently done, for example, when income tax overpayments are offset for underpaid employment taxes. The IRS would also offset any overpayments of value-added tax against underpayments of other types of taxes. To effect these offsets, the value-added tax statute would require a value-added tax taxpayer who is also a Form 1040 Schedule C filer to disclose his Social Security Number (SSN) on the value-added tax return. This action would be similar to the entry under current law of an Employer Identification Number (EIN) on a Schedule C.

The examination of value-added tax returns by the IRS would usually be conducted independently from the audits of income tax returns and the examination of records for value-added tax purposes would not constitute an examination of books and records for income tax purposes. For example, if a taxpayer's sales as determined by an examination of the value-added tax return are proven to be significantly in error by subsequent examination of the taxpayer's income tax return, the value-added tax examination would be reopened and sales for value-added tax purposes would be corrected.

III. Recordkeeping

Taxpayers would be required to maintain books and records in sufficient detail so that both sales and purchases subject to value-added tax could be accurately determined. These records would be required to be kept in a form that would allow their review by the IRS for the purposes of verifying reportable value-added tax transactions.

The records would have to show all taxable goods and services purchased or sold in the course of business, as well as a description of any items converted to personal use. The records would also indicate all zero-rated purchases or sales.

The specific form of the taxpayer's records would not be prescribed by the IRS, but if the records did not clearly reflect taxable sales and purchases, taxpayers would be required to make the necessary and appropriate changes in recordkeeping. The accounts and records should reflect cross referencing to all relevant supporting documents, such as orders, invoices, and correspondence. The taxpayer's records would be subject to the same retention rules as currently apply for income tax purposes. Taxpayers who supply or receive goods on consignment or similar terms would be required to keep separate records of such transactions, including the date when a transaction has been made or the goods have been returned to the supplier.

To enable the IRS agents to check the records of a business, taxpayers would be required to summarize their taxable sales and purchases for each taxable period, including any goods applied to non-business use. Necessary adjustments would be made for exempt transactions and activities. These summaries would be developed to coincide with the deposit periods for payment of value-added tax.

Receipts would be required to document all transactions; however, invoices would be issued only between registered business firms, or at the customer's request. While invoices are normally intended to enable the purchaser to verify that the goods supplied are as ordered, they also are essential to a credit method value-added tax. Credit for tax paid on business purchases would only be allowed if the invoice itemized the tax payment separately. When an invoice is required, a seller would be required to issue an invoice to the purchaser within 30 days of the sale.

Each invoice would be required to show: the name, address and EIN of the seller; the amount of the value-added tax, separately stated; a description of the quantity and nature of the goods or services; the date of issue of the invoice; the date the goods or services were delivered; the base price, i.e., the price upon which the value-added tax is levied; the transaction date; and, at the option of the purchaser, the EIN of the purchaser. For purposes of the tax, the base price would include Federal excise taxes. Refunds and credits would be recognized only where the purchaser's EIN is shown on the invoice. Invoices must be retained to verify value-added tax paid on purchases.

Refunds for value-added tax paid on exports would be allowed only if appropriate documentation is on file for goods and services exported. A credit for value-added tax paid on imports would be allowed only if import invoices certified by the U.S. Customs Service indicate that the tax had been paid to the government. Third party information reporting (e.g., Forms 1099) is not contemplated in the administration of the value-added tax.

IV. Filing of Returns and Payment of Taxes

The IRS currently processes all income tax returns in 10 service centers located in various regions of the United States. These same centers would be used for processing value-added tax returns and payments.

For purposes of collecting and paying the value-added tax to the IRS, the filing entry would be the same as for income or employment tax purposes; thus, a business with multiple locations and one EIN would file one value-added tax return. Each entity would use its EIN when filing. Those entities which do not now have an EIN, e.g., a business with no employees, would be required to obtain an individual EIN.

All value-added tax taxpayers would be deemed to be on a calendar year basis and returns would be required to be filed quarterly within 30 days after the end of each calendar quarter. A form similar to Form 6400 (Appendix 9-A) would be used for reporting taxable value-added tax sales and allowable purchase credits. This form would be filed with the same IRS Service Centers where taxpayers now file income tax returns.

Value-added tax collections would generally be governed by the deposit rules that apply to employment taxes, except as to frequency of payments. Value-added tax payments would be made using the Federal tax deposit (FTD) system. Deposits would be made at a Federal Reserve Bank or other authorized financial institution. Each deposit would be accompanied by a FTD coupon. Deposits would be automatically credited to the taxpayers' accounts under this system.

The frequency of value-added tax deposits would be based on the amount of value-added tax owed. A monthly or semimonthly deposit system would be used. If value-added tax liability is less than \$2,000 for a particular month, a monthly deposit would be due by the last day of the month immediately following. However, if the value-added tax liability is \$100 or less at the end of the first or second month in a quarter, it would be carried over to the next succeeding month. If a value-added tax liability is \$100 or less at the end of the third month, it would be deposited or paid with the return by the due date of the return. If the liability exceeds \$2,000 for any month of the quarter, semimonthly deposits of taxes would be made for the following quarter. The amount owed would be deposited by the 9th day following the semimonthly period for which it is reported.

The tax would be calculated on all goods and services not explicitly exempt or zero rated, regardless of the purchaser. Those entities that might normally qualify for value-added tax refunds, such as states, local governments, exempt organizations, and importers would receive quarterly refunds of value-added tax paid by filing Form 6400 with the IRS. Other taxpayers would have the option to carry forward unused credits against value-added tax owed in succeeding quarters or to receive refunds on a quarterly basis. This election would be made on Form 6400. The IRS would honor this quarterly election by refunding the value-added tax after offsetting the available value-added tax credits for any underpayments of other types of taxes.

V. Imports

The U.S. Customs Service would be responsible for collecting the value-added tax on items imported into the United States. The rules for establishing the taxable value of items would follow the same rules now used for the purposes of collecting duties on those items. For example, the value of imported merchandise is generally the transaction value of the goods, that is the price actually paid or payable for the merchandise when sold for exportation to the United States, plus certain other amounts which include packing costs, selling commissions, royalties, or license fees. If the transaction value cannot be determined, then certain other valuation methods are applied such as the transaction value of identical or similar merchandise, or a deductive or computed value. For the value-added tax, as for duties and certain Federal excise taxes, it would be the responsibility of the U.S. Customs officer to establish the value. Also, the requirements for providing the proper entry document, packaging of imported

merchandise, inspecting such merchandise, collecting the tax, assessing subsequent tax if the value is originally understated, and disputing and appealing the determination of value upon which the tax is assessed would follow the rules established for purposes of collecting import duty.

If no duty is collected by U.S. Customs because the item is entitled to enter the U.S. duty-free, the value-added tax would still be collected unless that item is zero rated under the value-added tax rules and thus would not be subject to the tax. However, if an item is imported and classified by the U.S. Customs as qualifying for temporary free importation because that item is to be held temporarily in a bonded warehouse for export, no value-added tax would be collected. If, instead, the item were exempt from duty because it was imported for use by the person importing the article, the value-added tax would be collected. The bonds or sureties required to guarantee payment of duties would also be required to assure payment of the value-added tax. Likewise, the rules which apply for nonpayment of duty, such as those governing the disposition of goods, would apply for nonpayment of the value-added tax. The Customs' rules defining who is liable for the duty, internal advice procedures, protests, and appeals would also be applicable to Customs' procedures for assessment and collection of the value-added tax.

The rules governing the method and time period for collection of duty would generally govern for value-added tax purposes. However, if the value-added tax were collected along with import duty and if the duty were later refunded, such as occurs when certain goods are held in the United States temporarily and then exported, the value-added tax would not be refunded since it would be assumed that credit for payment of the value-added tax would already have been taken against the importer's value-added tax liability.

VI. Enforcement

Once a value-added tax is in place, the success of the IRS in collecting the tax revenue will depend primarily on two program areas: Examination and Collection. An effective examination function must be developed to detect receipt and invoicing distortions along with a collection system which will permit early detection of delinquent taxpayers.

A. Examination

In the initial years of any new tax, an effective system of tax administration should have a significant audit presence. This would be particularly true with respect to a value-added tax in the United States.

As shown in Table 9-1 the income tax compliance levels of sole proprietorships (Schedule C) and corporations have been declining in recent years. The data below, developed from IRS taxpayer compliance

Table 9-1

Taxpayer Compliance Levels: Individual and Corporate
Selected Years, 1976-1981
(Percent)

	<u>COMPLIANCE LEVELS</u>	
	<u>Tax Year</u> <u>1979</u>	<u>Tax Year</u> <u>1976</u>
Total Individual	90.8	91.8
Schedule C, Gross Receipts		
\$1 - \$25,000	66.3	72.9
\$25,000 - \$100,000	76.0	81.5
\$100,000 and over	74.8	78.8
	<u>Processing</u> <u>Year 1981</u>	<u>Processing</u> <u>Year 1978</u>
Total Corporations	80.6	83.3
No Balance Sheet	60.6	63.0
\$1 - \$1,000,000 Assets	70.4	73.9
\$1,000,000 - \$10,000,000	85.9	88.8

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measurement programs, reflect this decline (i.e., the ratio of tax liability reported to correct tax liability exclusive of math errors.)

Based on the assumption of approximately 20 million taxpayers, the IRS audit coverage and staffing by categories of taxpayers are shown in Table 9-2.

Since a value-added tax would be a new Federal tax, about 8,500 new hires would be added to the examination staff. It would not be practical to acquire these new hires more rapidly than one third per fiscal year beginning in the year the tax is effective. This limitation is due to many factors, such as the availability of qualified candidates, the resources that would be needed to recruit, interview, select, and train the new hires, and the nonavailability of value-added tax work for some of the people if hired too early in the implementation process.

Over the years, the IRS has continued to perfect its computerized methods of selecting income tax returns for examination with the result that the yield from its examinations has increased and its rate of no-change examinations has decreased each year. This has been the result of gathering extensive statistical data relating to the returns examined and filed and of conducting periodic research and taxpayer compliance measurement programs. Such an information base would not be available initially for developing a selection system for value-added tax returns.

In the early years of a value-added tax, the IRS would develop a computerized selection system. But until an extensive information base is acquired either through a research study or the taxpayer compliance measurement program, the system would not be as effective as the income tax system in terms of revenue yield and low no-change rates. It would probably take as long as 5 years after the effective date of a value-added tax to develop an effective return selection system.

Until the IRS has developed an information base with respect to non-compliance areas, it will be difficult to classify returns for examination merely on the basis of Form 6400. Accordingly, during the first 5 years after the effective date of a value-added tax, returns would be selected on the basis of largely untested characteristics. The IRS would also include special value-added tax compliance checks in the examination of income tax returns to check the accuracy of value-added tax reporting.

Examinations of sole proprietorship (Schedule C) taxpayers are the most time consuming of all individual income tax examinations. This is because many of these taxpayers do not maintain reliable books and records. Generally, their books and records are a single-entry system maintained by the taxpayer, with personal and business accounts commingled and receipts maintained in a haphazard fashion.

Table 9-2
Audit Coverage and Staffing for Value-Added Tax
By Categories of Taxpayers

	Receipts (millions of dollars)				
	Less than: \$1.0	:\$1.0-10.0	:\$10-100	:\$Over \$100	:
					Total
Taxpayers	18.8	.9	.3	15K	20.0
Audit coverage (overall)	2%	4%	8%	28%	2.2%
Hours per case	15	20	40	80	
*Staffing	6,269	800	1,066	374	8,509

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* The above estimate includes support personnel; 7,032 of the 8,509 are technical staff years and 1,477 are support staff years.

Since the reporting of sales figures would likely be a major area of abuse, the IRS would need a recognized method of determining sales for those value-added tax taxpayers whose books and records are not reliable. The staffing estimates in this section are based on IRS examiners using examination techniques similar to those employed by state sales tax examiners, which require much less time than the indirect methods currently employed in Federal income tax examinations. This would mean extensive use of percentage mark-up techniques in auditing. In order to minimize disputes and to obtain maximum coverage, it would be useful for these techniques to be recognized as appropriate auditing systems in the codification of a value-added tax.

B. Collection

The collection function would operate under the same procedures and techniques that are employed in enforcing the income and withholding taxes. If value-added tax returns are filed with balances due, the service center staff would generate up to 4 notices to taxpayers at intervals of approximately 5 weeks. Cases that remain unresolved after notice processing would be forwarded to the automated collection staff for telephone contact and additional processing. Continued delinquencies would be turned over to a field officer for personal contact and resolution. At that point, more sophisticated collection techniques would generally be required.

Collection costs for a value-added tax are based on the IRS's experience with employment tax returns. Assuming 80 million value-added tax returns (quarterly returns by the 20 million taxpayers), the IRS estimates that there would be 1.06 million delinquent accounts and 1.4 million investigations of possible unfiled returns. Though some of these delinquencies would be part of an investigation for other taxes (employment or income, for example), it is estimated that the automated collection system would close approximately 65 percent of the remaining issuances so that the district offices would receive about 300,000 delinquent account referrals and 238,000 delinquency investigations.

The value-added tax would necessitate an increase in collection staffing of about 2,900 individuals. As with the examination staff, the collection staff would be increased in approximately one third annual increments. Assuming a July 1, 1987 effective date, the collection function would hire one-third of the required staff by March 1987, another one-third by March 1988, and the remaining one-third by March 1989. This would enable the IRS to devote sufficient resources to training new hires while maintaining its compliance coverage.

C. Criminal Investigation

The IRS would handle the criminal investigation part of value-added tax administration as an additional responsibility of the current staff of investigators. History has shown that when any new tax

is enacted, a body of civil tax law must be established before criminal enforcement can be achieved. Precedents in the civil area are generally required before courts will accept criminal prosecutions in tax matters.

Development of a criminal investigation workload would flow primarily from referrals coming from the examination and collection functions. As case law and taxpayer practices become established, the criminal investigation would then be able to address specific segments of noncompliance, as they now do in the income tax.

D. Appeals Procedures

Value-added tax taxpayers would have appeal rights in disputes with the IRS similar to those under the income tax. In pursuing a disagreement with adjustments proposed by the IRS, the taxpayer would have the opportunity to request an appeals hearing within 30 days after the receipt of the examiner's report. Once requested, the hearings would be conducted promptly by the Appeals office of the IRS.

If the liability recommended by the IRS continues to be unresolved, the taxpayer would then have the opportunity to pay the full amount of any tax due and appeal to the U.S. Court of Claims or to any federal district court. In this connection, the value-added taxpayer would be treated the same as if an excise or payroll tax were in dispute. Before the taxpayer could appeal to the courts, the tax would be assessed and must be paid.

VII. Public Education Strategy

Unless there is adequate and timely publicity before a value-added tax is introduced, resistance based on inaccurate or inadequate data could become a serious problem. Every country that has adopted a value-added tax has preceded its implementation with a one-to-two year intensive public information campaign. The time required in the United States could conceivably be shorter. However, because the value-added tax would impose new requirements on taxpayers, a carefully-planned taxpayer information campaign would be necessary.

The IRS would take the following steps.

1. It would prepare and disseminate a basic Value-Added Tax Public Education package which would include fact sheets, proposed speech inserts, and written questions and answers.
2. It would issue a series of news releases announcing filing dates and explaining the use of the new forms.
3. It would publish a series of op-ed articles under the byline of the Commissioner of the Internal Revenue Service and other senior Administration officials. These articles would explain the philosophy behind the value-added tax, its advantages, and its operation.

4. The IRS would also arrange numerous press conferences and press briefings at the national, regional, and district office levels.

5. It would schedule and manage a large number of briefing meetings with such organizations as the U.S. Chamber of Commerce, the National Association of Manufacturers, and other business-related organizations.

6. On both the national and field levels, the IRS would mount coordinated wide-ranging speakers programs to provide the public, practitioners, and industry groups with information on the value-added tax.

VIII. Returns Processing

Returns would be processed using the present 10 IRS service centers and the National Computer Center. The IRS would process 80 million returns (20 million per quarter) and 120 million deposits of tax. Along with the 50 million notices of various types which would be issued, it is expected that 5 million new EINs would need to be issued to value-added tax filers who do not now have an EIN. Five million adjustments (i.e., changes to taxpayer accounts after returns are filed) would be required per year.

IX. Data Processing Activities

Implementing a value-added tax would necessitate the acquisition of additional data processing equipment by the IRS. These costs are shown in Appendix 9-B. The computer services costs reflect expenditures for software development and hardware procurement. They include staffing to program and test, or contract for, software modifications to a series of IRS systems. The computer equipment costs (about \$259 million over a four year period) would involve: the purchase and maintenance of Optical Character Recognition (OCR) devices to scan FTDs and returns (about \$50 million); upgrades to data entry, main processing, and printing systems in the 10 service centers (about \$121 million); machinery to maintain value-added tax accounts in master files at the National Computer Center (about \$7 million); upgrades in 12 existent call sites for automated collection operations and computers in 8 new call sites under the Automated Collection System (ACS) (about \$36 million); and portable computers for field personnel under the Automated Examination System (AES) (about \$45 million). In accordance with IRS procurement practices, costs of \$214 million are displayed under 4-year, lease-to-ownership plans (LTOP) and related maintenance schedules. In accordance with projected examination staffing, AES equipment costs would occur in 4 installments with an annual purchase cost of \$10.5 million and an incremental maintenance fee geared to the aggregate number of portable computers acquired through each installment.

X. Cost Estimates

The IRS has made preliminary cost estimates (Annex 2) for administering the value-added tax. At today's prices, these estimates indicate that it would cost about \$700 million per year once the administrative program is fully effective. These costs do not include the following: costs to the private sector of complying with the recordkeeping and filing requirements; costs to other Federal agencies involved in administering a value-added tax, e.g., the Customs Service for imports and the Bureau of Government Financial Operations (currently \$.50 per FTD is paid to banks for processing); and opportunity costs to the IRS, since the income tax revenue produced by enforcement personnel may decline during the conversion to a value-added tax because a significant number of the IRS's experienced personnel would be involved in training, planning, and managing the value-added tax system.

The costs for taxpayer services (which includes taxpayer education) are based on IRS general experience with new legislation. There is no comparable experience with the introduction of a radically different tax. The category of resource and other costs includes the necessary costs to hire, train, support, and house the staff involved in the operational segments of the IRS. Certain support personnel costs would rise in direct ratio to operational staff expansion: e.g., personnel, internal audit, internal security, and training. In addition, the costs of increased office space, travel, and the like would be incurred.

XI. Summary

To implement a value-added tax successfully, there must be adequate preparations. These would include designing the system for administration; developing complete staffing and equipment needs; putting together a practical public relations program; and adhering to a realistic timetable. The IRS would need at least 18 months after enactment before it could begin to administer a value-added tax. Thus, even if a value-added tax were enacted by the end of 1985, IRS administration could not begin before July 1, 1987. If an enacted value-added tax were materially different from the value-added tax assumed in developing these cost estimates, the projected leadtime and costs could be substantially modified.

Appendix 9-A

Form 6400 (July 198X) Department of the Treasury Internal Revenue Service	Federal Value Added Tax (VAT) Return	OMB No 1545-XXXX
Calendar quarter ending <input type="checkbox"/> March, <input type="checkbox"/> June, <input type="checkbox"/> September, <input type="checkbox"/> December, 19		
Taxpayer's name		Taxpayer's identifying number
Address		Business code number
City, state and ZIP code		

If you are an exempt entity, use this Form 6400 to report only transactions connected with an unrelated trade or business. For all other transactions, file Form 6400-R instead.

Part I Tax Computation

1 Total sales on invoices issued during the quarter (and issued during prior quarters but not previously reported on a Form 6400) Enter total sales net of VAT and state sales tax	1			
2 Zero rated sales shown on invoices included on line 1	2			
3 Returns, allowances, discounts not previously claimed on a Form 6400	3			
4 Allowance for uncollectibles allocated to quarter	4			
5 Total deductions (add lines 2, 3 and 4)	5			
6 Taxable sales (subtract line 5 from line 1)	6			
7 Tentative VAT (multiply line 6 by .xx)	7			
8 Total VAT paid on invoices received during the quarter	8			
9 Total VAT paid on invoices received during prior quarters but not previously reported on a Form 6400	9			
10 VAT credit carried over (from line 16 of last filed Form 6400)	10			
11 VAT deposits (from Part II)	11			
12 Total VAT credits (add lines 8, 9, 10 and 11)	12			
13 If line 7 is greater than or equal to line 12, subtract line 12 from line 7 and enter net undeposited VAT due	13			
14 If line 12 is greater than line 7, subtract line 7 from line 12 and enter net VAT overpayment	14			
15 Amount on line 14 to be refunded to you	15			
16 Amount on line 12 to be applied as a VAT credit carryover (subtract line 15 from line 14)	16			

Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete.

Date ►	Signature ►	Title (Owner, etc.) ►
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Form **6400** (7-8X)

Appendix 9-A, continued

Form 6400 (7-8X)

Page 2

Part II Deposit Schedule and Record of Tax Liability (See Instructions)

Month	Period		Amount of Liability	
	Day			
First month	1st through 15th day			
	16th through last day			
	Total for month			
Second month	1st through 15th day			
	16th through last day			
	Total for month			
Third month	1st through 15th day			
	16th through last day			
	Total for month			
1 Total liability for the quarter				
2 Total deposits for the quarter. Enter here and on line 11 of the Tax Computation				
3 If you make semimonthly deposits and claim one of the deposit exceptions, please indicate the exception: a <input type="checkbox"/> b <input type="checkbox"/> c <input type="checkbox"/> d <input type="checkbox"/>				

Appendix 9-A, continued

Form 6400-R (July 198X) Department of the Treasury Internal Revenue Service	Application for Refund of Value Added Taxes For Exempt Entities	OMB No 1545-XXXX
Return for period beginning , 19 , and ending , 19		
You may use this form to apply for a refund only if you are an exempt entity described in Code section xxxx. All other entities must use Form 6400.		
Entity's name		Entity's identifying number
Address		
City, state, and ZIP code		
Check applicable box: <input type="checkbox"/> State or local government (or instrumentality or subdivision) (see instructions) <input type="checkbox"/> Exempt under section 501(c)() (insert number) <input type="checkbox"/> Exempt under section 501(d) <input type="checkbox"/> Exempt under section <input type="checkbox"/> Section 4947(a) trust		
1 Total VAT paid on invoices received during the tax period for which you are filing this application 2 Total VAT paid on invoices received before the period for which you are filing this application, but not previously reported on either a Form 6400 or a Form 6400-R 3 Amount to be refunded. Add lines 1 and 2 .		1
		2
		3
Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete		
Date ►	Signature ►	Title ►

Form **6400-R** (7-8X)

Appendix 9-B

ESTIMATED STAFFING AND ANNUAL COST

Function	First year		Second year		Third year		Fourth year	
	Staffing	Cost	Staffing	Cost	Staffing	Cost	Staffing	Cost
	(average	(average	(average	(average	(average	(average	(average	(average
	positions)	(millions)	positions)	(millions)	positions)	(millions)	positions)	(millions)
Returns processing	7,935	\$165.0	7,539	\$156.0	7,464	\$155.0	7,389	\$153.0
Computer services	37	2.0	10	0.5	10	0.5	10	0.5
Computer equipment		68.4		62.8		63.4		64.0
Statistical reporting	13	0.4	12	0.4	12	0.4	12	0.4
Examination	2,344	88.6	4,688	177.1	7,032	265.7	7,032	265.7
Collection	958	34.9	1,196	68.1	2,874	102.2	2,874	102.2
Taxpayer service	406	13.0	406	13.0	406	13.0	406	13.0
Resources and other costs	663	15.7	1,327	33.0	2,000	49.6	2,031	50.7
Appeals	70	3.5	280	13.9	560	27.8	840	41.7
Counsel	50	2.5	100	5.0	100	5.0	100	5.0
Training costs		16.1		12.5				
Totals	12,476	\$410.1	15,558	\$542.3	20,458	\$682.6	20,694	\$696.2

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